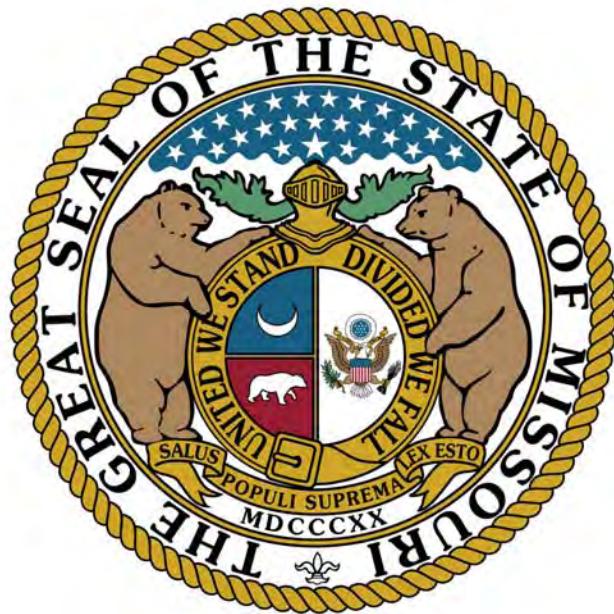


MISSOURI ENERGY TASK FORCE ACTION PLAN



Jeff Davis, Chairman; Chairman, Public Service Commission
Lewis Mills, Office of Public Counsel
Lieutenant Governor Peter Kinder
Speaker of the House, Rod Jetton
President Pro Tem of the Senate, Michael Gibbons
Representative Rex Rector
Senator David Klindt
Director Fred Ferrell, Department of Agriculture
Director Doyle Childers, Department of Natural Resources

I. RECOMMENDATIONS TO MAINTAIN, UPGRADE AND EXPAND OUR EXISTING UTILITY INFRASTRUCTURE TO IMPROVE RELIABILITY:

Items Addressed:

GOAL #4. Encourage Missouri utilities to develop and operate clean and affordable power generation resources well into the future.

Action Items:

- (1) The Missouri Public Service Commission (PSC) and Missouri Department of Natural Resources (DNR) shall provide for the continuing operation of cost-effective and environmentally-sound generation resources to meet existing needs.
- (2) The PSC should continue to require investor-owned utilities to maintain capacity reserve margins in compliance with regional reliability requirements.
- (3) The PSC should continue to work with the Midwest Independent Transmission System Operator (MISO) and the Southwest Power Pool (SPP) to develop firm, long-term transmission rights from generating plants to the customers they are serving.
- (4) The PSC should continue to work with MISO and the SPP on expanding transmission infrastructure where such expansion:

- a. Would be cost beneficial through reducing wholesale power costs;
- b. Would improve the deliverability of power to small municipals from competitively supplied generation resources; and
- c. Would improve power flows among utilities when faced with contingency conditions on the power system.

(5) The PSC should work to develop more fluid seams agreements between Missouri utilities.

(6) The PSC should continue to investigate cost-effective opportunities for demand response programs that will enhance the reliability of the system. The PSC should also ensure such programs create standardized measurement and evaluation mechanisms so that demand-response savings are verifiable.

(7) The PSC should review and revise the PSC's Integrated Resource Planning Rules, as necessary, to ensure that cost-effective energy efficiency, conservation and verifiable demand response programs are given the same consideration as supply-side resource options.

II. RECOMMENDATIONS TO LESSEN MISSOURI'S DEPENDENCE ON OIL AND PROMOTE THE RURAL FARM ECONOMY:

Items Addressed:

GOAL #1. Lessen Missouri's dependence on oil and other fossil fuels.

GOAL #3. Promote the development of alternative fuel sources in ways that strengthen the rural farm economy.

Action Items:

- (1) The State should require the use of at least 10% Ethanol-blended gasoline in Missouri by 2008.¹
- (2) The State should remove regulatory obstacles for renewable fuels:
 - a. Statutorily prohibit franchise agreements that discriminate against the sale of renewable transportation fuels by a franchisee.²
 - b. Consider lowering taxes on alternative fuels that have a lower British Thermal Unit (BTU) output than gasoline to achieve tax parity for fuels such as E-85.³

¹ Note: Accomplished by Missouri House Bills 1270 and 1027 during the 2006 legislative session.

² See New York Article 11-B-199-J, 2006.

³ See Kansas Senate Bill No. 544, 2006 legislative session.

- c. Ensure that tax credits and other state assistance being used to finance the development of renewable and alternative fuel projects will not be withheld.

(3) DNR should work with Missouri automakers, other states, groups and the federal government to increase the Corporate Average Fuel Economy (CAFÉ) standards.

(4) Revise the Missouri Ethanol & Other Renewable Fuel Sources Commission (Section 414.420 RSMo 2000) to focus on the development of all alternative fuels and expand the membership of the commission to include members that will provide subject matter expertise so the commission may better perform the following duties:

- a. Make recommendations to the Governor and the General Assembly on changes to state law that will facilitate the sale and distribution of alternative fuels and alternative fuel vehicles;
- b. Promote the development, sale, distribution and consumption of alternative fuels;
- c. Promote the development and use of alternative fuel vehicles and technology that will enhance the use of alternative and renewable transportation fuels;
- d. Educate consumers about alternative fuels, including but not limited to ethanol and biodiesel;

- e. Craft a long-term plan on how to reduce our consumption of petroleum fuels that considers a broad range of approaches, including, but not limited to a higher percentage of vehicles on the road using flex-fuel hybrid and plug-in hybrid technology;
- f. Submit an annual report to the Governor.

(5) DNR and OA should continue exploring cost-effective opportunities to reduce the state's consumption of petroleum fuels in the state's fleet vehicles.

III. RECOMMENDATIONS TO REDUCE MISSOURI'S DEPENDENCE ON OIL AND OTHER FOSSIL FUELS:

Items Addressed:

GOAL #1. Lessen Missouri's dependence on oil and other fossil fuels.

Action Items:

- (1) Missouri should continue to lead the state by example on energy efficiency and conservation issues.
 - a. The Office of Administration (OA) should construct new buildings to the 2006 International Energy Efficiency Code (IEEC), ENERGY STAR specifications, or other stringent guidelines.
 - b. The State, through legislation or executive order, should adopt minimum energy efficiency standards for all new facilities and significantly-renovated facilities that are constructed using state monies. The task force recommends the 2004 IEEC as a starting point.
 - c. OA should establish a substantial energy savings goal for the state comparable to the 2% annual reduction per year for a ten-year period required for all federal buildings in the Energy Policy Act of 2005.

- d. OA should continue to install advanced metering in all state facilities to facilitate demand response programs, time-of-use rates and other savings.
- e. OA should continue to review the use of existing building space and the addition of new building space to ensure existing space is being properly utilized and that space additions do not negate savings from conservation efforts.
- f. OA should explore cost-effective opportunities to generate electricity to serve its own needs.
- g. OA should only purchase ENERGY STAR-labeled equipment when such products are available.
- h. OA should continue using energy service companies (ESCOs) and performance contracting to implement cost-effective savings.
- i. OA and the Department of Natural Resources (DNR) should cooperate to design an energy efficiency education plan for building managers and employees.

(2) The state should promote the adoption of county and municipal energy efficiency codes on a county-by-county, city-by-city basis.

- a. The Missouri General Assembly should develop a Model Energy Efficiency Code for Missouri based on the 2004 IEEC with the following parameters:

- i. The code should contain provisions promoting energy efficiency and conservation and may contain programs designed to promote highly efficient buildings.
- ii. The code should allow the input of key stakeholder groups including, but not limited to, the PSC, DNR's Energy Center, the Missouri Department of Economic Development (DED), Missouri utilities, representatives from various cities and counties based on size and geography, homebuilders, realtors and architects.
- iii. The code should only apply to new construction and significant renovations.
- iv. The code should contain "opt in" language that will allow counties and municipalities to adopt the code by resolution.
- v. The code should allow counties and municipalities to modify the code or adopt the code in whole or in part to recognize community standards, which are more likely to be enforced.

- vi. If financially feasible, the legislature should consider mechanisms that will encourage political subdivisions to adopt the code.⁴
 - vii. Any legislation should contain provisions for updating the code regularly based on a three-year cycle designed to coincide with the release of national model codes.
 - viii. Implement training, technical assistance and continuing education for builders, designers and code officials.
- b. In the event that the Missouri General Assembly does not adopt a Missouri Model Energy Efficiency Code, the DNR Energy Center should develop and promote a Missouri Model Energy Efficiency Code based on the above-mentioned criteria for first and second-class counties.
- c. The PSC should work with the Missouri Housing Development Commission (MHDC), DNR and other interested parties to revise the provisions of commission rules and utility tariffs prohibiting master metering when the owner of a multi-unit property demonstrates the facility meets or exceeds the 2004

⁴ "The Potential for More Efficient Electricity Use in the Western United States – The Energy Efficiency Task Force Report to the Clean and Diversified Energy Advisory Committee of the Western Governor's Association, p. (December 19, 2005).

International Energy Efficiency Code and other criteria as may be established by the Commission to promote conservation in the facility.

- d. For existing rental property, the DNR Energy Center should develop and promote a voluntary program for cities and counties to adopt that will encourage political subdivisions to make landlords more accountable for the energy efficiency of the properties they rent.

(3) Missouri should monitor the adoption of minimum efficiency standards for appliances not covered by federal standards by other states and should consider adopting such standards on a case-by-case basis (10 states have adopted appliance standards).

(4) Missouri should work to diversify its electric generation portfolio in a cost-efficient manner.

- a. The State should adopt a goal, either by legislation or rule, encouraging electric utilities to meet at least 10% of Missouri's electricity demand from renewable resources and/or conservation by 2020.⁵
 - i. The task force recommends a goal and not a mandate to ensure generation additions are economical.

⁵ See Missouri Energy Task Force Resolution #3 recommending the development of a 10% Renewable Portfolio Standard by 2020 (January 31, 2006).

- ii. The task force recommends the goal be achieved through construction of renewable generation (wind, solar, hydroelectric, biomass, etc.) as well as the avoidance of new generation additions through verifiable conservation/energy efficiency improvements.
- b. The State should consider developing incentives for co-generation and distributed generation using renewable technologies with new building construction.
- c. The PSC should continue working with electric utilities and other stakeholder groups to revise Missouri's "net metering" statutes to create more opportunities for distributed generation in Missouri.⁶
- d. The State should encourage additional wind generation development by investing in the collection of two years of additional tall tower wind data in order to identify other areas of the state where utility-sized facilities may be economically viable.
- e. If there are financial resources available, and without weakening current funding for existing or future renewable fuel production facilities involving Missouri's family farmers, then

⁶ Note: The PSC has opened a case to investigate "net metering" opportunities. See PSC Case No. EO-2006-0493.

the state should consider modifying existing tax credit programs so that communities and farmer owned entities can build, operate, and utilize wind generation facilities.

(5) The State of Missouri should work with key stakeholders to improve and expand consumer education efforts:

- a. The DNR Energy Center, the PSC and the Office of Public Counsel (OPC) should work together and with the cooperation of the investor-owned utilities, municipal utilities, the rural electric cooperatives and other interested parties to develop a standardized, comprehensive plan to educate Missouri consumers about energy issues, how customers can conserve energy, and what public utility assistance is available. At a minimum, this program should include the following:
 - i. Regular public service announcements (PSAs) to advise the public on energy issues, focusing on conservation, where customers can go for assistance and how customers wishing to make contributions for assistance may do so.
 - ii. One easy-to-use toll-free number and web portal where customers can go for utility assistance.
 - iii. Customized educational programs developed for different types of housing and different types of

customers (senior citizens, ethnic communities, small businesses, etc.) and other hard-to-reach communities.

- iv. A conservation plan that, if properly executed, will enable residential customers to save at least 10% on their monthly utility bills.
- v. Regular distribution of energy saving strategies through utility bills.

- b. DNR should work with the Department of Elementary & Secondary Education (DESE) to encourage the use of the DNR Energy Curriculum in all public schools throughout the state.
- c. DNR should continue its outreach efforts with vocational school and union apprenticeship programs to insure that all persons entering the construction trades are trained to build energy efficient facilities and to weatherize them.
- d. DNR should look for ways to educate builders, designers and construction workers about the importance of energy efficiency and the best energy efficiency practices.

IV. RECOMMENDATIONS TO ENSURE MISSOURIANS HAVE AFFORDABLE UTILITY SERVICE:

Items Addressed:

Goal #2: To provide affordability assistance to low-income Missourians.

Action Items:

- (1) The Governor, Missouri General Assembly, PSC, DNR, and Division of Family Services (DFS) should work with Missouri's Congressional delegation to obtain at least \$3.16 billion, and preferably \$3.6 billion, in annual funding for the Low Income Home Energy Assistance Program (LIHEAP).
- (2) The State should fully fund Missouri's Utilicare Stabilization Fund (approximately \$7.2 million was appropriated in January 2006) to provide additional assistance to Missourians at or below 125% of the federal poverty level.
- (3) The State should work to ensure stable funding for both of these programs so that Community Action Agencies have adequate funds to assist low-income families throughout the winter.
- (4) In the event that the State is unable to provide funds, find a permanent funding source for the Utilicare program.

(5) The Department of Social Services (DSS) should transfer to DNR in Fiscal Year 2007 an amount equal to 5% of the total LIHEAP funds received by DSS to be used for weatherization and 10% in Fiscal Year 2008 and 2009. Additionally, for the first one-year period, the Community Action Agencies may utilize up to an additional 10% of their annual LIHEAP allotment for weatherization at their discretion. After the first year, the discretionary amount will reduce to 5%. Individual projects should be targeted to benefit those residences with the greatest opportunity to reduce utility costs. DNR shall distribute those funds using the same formula as used to distribute other federal weatherization funds. Additionally, the DNR Energy Center, with the support of DSS, shall conduct and report on a study measuring electricity and heating fuel consumption before and after weatherization, the amount of utility assistance received by the occupants before and after weatherization, and any other energy related information requested by DNR and DSS.

(6) DSS should modify its rules to require that individuals living in owner occupied dwellings who receive utility assistance shall be referred to the appropriate weatherization agency for weatherization of their residence, and that any individuals who refuses to participate, if services are available and offered, in the weatherization program after that referral shall be denied future utility assistance.

- (7) To the extent possible, all utilities should be encouraged to work together to standardize low-income customer assistance programs that will make mass education efforts easier.
- (8) The PSC should lower the percentage of money required for a customer to reconnect their utility services in winter months.⁷
- (9) The PSC should monitor the need for a “hot weather” rule. Currently, the evidence does not support the need for a “hot weather” rule, but the situation should be monitored.

Action Items to Ensure Affordability of Both Natural Gas and Electricity:

- (1) At a minimum, the PSC should consider innovative rate designs that allow customers to “lock-in” their rate for natural gas for as long as a year.⁸
- (2) The PSC should study the results of Aquila’s “fixed bill” pilot program that allowed customers to obtain a fixed bill for an entire year with no true-up for the utility at the end, and other fixed bill programs to determine if such programs should be required on a system-wide or statewide basis.

⁷ Note: This has been accomplished by the PSC by adopting amendments to 4 CSR 240-13.055. Those amendments are currently pending at the Secretary of State’s Office.

⁸ Note: Such rate designs should be optional for customers who seek price certainty, and customers should be strictly warned that hedging does not guarantee a low price, only price certainty.

- (3) The PSC should investigate the cost-feasibility and the uses of advanced metering to allow customers to monitor their usage and consumption patterns.⁹
- (4) The PSC should closely monitor the wholesale markets for price manipulation, work with the Antitrust Division of the Missouri Attorney General's Office to strengthen Missouri laws against price-fixing for electricity and natural gas, and aggressively pursue utilities that violate the law in proceedings in Missouri, at the Federal Energy Regulatory Commission and with the Commodities Futures Trading Commission.
- (5) The PSC should consider rate designs that reward customers for conservation efforts.
- (6) The PSC should work with Missouri utilities to develop a program that will target low-income, high-use electricity and natural gas customers for weatherization assistance and education programs.

Action Items to Ensure Affordability of Natural Gas:

- (1) The PSC should continue encouraging gas distribution utilities to create additional in-state natural gas storage or obtaining additional storage along interstate pipelines serving Missouri, when it is cost effective, in order to enhance reliability and mitigate price volatility.

⁹ Note: The PSC has opened a case to investigate advanced metering opportunities. See PSC Case No. EO-2006-0496.

- (2) The PSC should consider revising its price volatility mitigation rule for natural gas to include a minimum hedging requirement.¹⁰

Action Items to Ensure Affordability of Electricity:

- (1) The PSC should closely monitor any activities at the federal level related to carbon emissions to insure that any new rules prohibiting or taxing carbon emissions do not injure Missouri ratepayers.
- (2) The PSC should work to lower the costs and provide cost certainty for transactions involving Regional Transmission Organizations (RTOs).
- (3) The PSC should work with state, federal and other agencies to ensure that Missouri utilities investing in power generation plants are guaranteed firm transmission rights from those plants to their Missouri customers.

Action Items for Improving Affordability of Propane:

- (1) DFS should work with the Community Action Agencies participating in its propane prepayment program to determine the benefits of the program, if any, to consumers.

10 Note: Hedging does not automatically produce the lowest price; it only produces a level of price certainty.

V. RECOMMENDATIONS FOR FUTURE TASK FORCE ACTION:

- (1) The task force should re-convene in November, prior to the start of the pre-filing of bills on December 1, 2006, to consider comments in response to the recommendations contained herein and any legislative proposals.
- (2) A similar task force should be re-convened every three or four years to monitor the state's progress in these areas and to update recommendations.